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SUBJECT: EU - CONCERNS LESSENING OVER RUSSIA/UKRAINE GAS
SITUATION, BUT LOANS SLOW IN MATERIALIZING

Sensitive but Unclassified - not for Internet distribution.

¶1. (SBU) Summary. The EU is looking to provide near-term economic relief to Ukraine help it meet its gas payments. The funding, most likely in the form of an EBRD loan, would not be available before late September or early October, and would be contingent on the implementation of reforms in Ukraine's gas sector. End Summary.

¶2. (SBU) On June 29, EU officials convened a conference to discuss Ukraine's inability to make its gas payments. The conference was attended by officials from the European Commission, the Czech Republic, Sweden, Ukraine, Russia, international financial institutions (IFIs), and representatives from Gazprom, Naftohaz and European energy companies. The conference consisted of a series of separate meetings between the participants, but according to one source, a plenary of all parties was not convened.

¶3. (SBU) According to the source, the Ukraine delegation, led by DepFinMin Umansky, responded to questions from the Commission and IFIs regarding the volume of gas in storage, additional volumes needed, and Ukraine's ability to pay for the gas. When asked whether arrangements could be made with Russia to pay for the gas, the Ukrainians replied "no."

¶4. (SBU) The Commission proposed a two billion euro loan to be financed by the European Bank for Reconstruction and Development and or the European Investment Bank. The funds would not be available until late September or early October and are subject to three conditions: (1) Ukraine's answers to additional questions to be posed by the IFIs on its capacity to repay the loan; (2) Ukraine's commitment to implement a series of reforms; (post is working to obtain a copy of the list of reforms) and (3) the deployment of monitors to monitor Ukraine's gas storage. The Commission suggested the parties reconvene in two weeks to continue the discussion.

¶5. (SBU) According to the source, the Ukraine delegation described the proposal as "alarming" in that it provides no relief over the next three months. Ukraine owes approximately USD 600 million each month, but Naftohaz's revenues are only USD 150-170 million. Hughes Mingarelli, Deputy Director General for RELEX reportedly replied: "talk to the Russians," who in turn suggested Ukraine form a consortium with European gas companies to manage its network.

¶6. (SBU) According to a member of Piebalgs's staff, the Energy Commissioner is optimistic that a gas crisis will be avoided in July. Piebalgs met with Gazprom's deputy CEO Alexander Medvedev on the margins of the conference. Piebalgs supports the creation of a consortium of Russian, Ukrainian, and European companies to manage Ukraine's infrastructure, but others in the Commission (most likely

RELEX) are opposed.

17. (SBU) In a separate conversation, a representative from RWE said its proposal to provide short-term relief by forming a consortium of European companies was discussed at length, but did not receive any support. (He suspects other energy companies felt slighted because RWE did consult with them first.) He said no other proposals were submitted, but that Piebalgs was pressing hard for an EBRD loan. He added that RWE is skeptical about the 3-way consortium, but that E.On and Gaz de France are considering the proposal.

Murray

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